

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 IO-13 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /103 W
-----060130 046666 /73/44

R 281045Z FEB 77
FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC 6009
INFO AMCONSUL CASABLANCA
AMCONSUL ORAN
USMISSION OECD PARIS
AMEMBASSY RABAT
AMEMBASSY TUNIS

C O N F I D E N T I A L ALGIERS 0536

DEPT PLEASE PASS EXIMBANK

C O R R E C T E D C O P Y - (TAGS AND REFERENCE)

E.O. 11652: GDS
TAGS: EFIN, EGEN, ENRG, AG, BEXP, ECRP
SUBJECT: ALGERIA'S EXTERNAL DEBT

REF: CERP 0102

1. SUMMARY. ALGERIA'S EXTERNAL DEBT HAS REACHED AT LEAST \$6.2 BILLION, WELL ABOVE ANNUAL EXPORT EARNINGS. EXPORTS HAVE KEPT PACE WITH DEBT GROWTH SINCE 1971, BUT ONLY BECAUSE OF 1973/74 OIL PRICE WINDFALL, WHICH IS NOT LIKELY TO BE REPEATED. EXPORT INDUSTRIES OUTSIDE OF HYDROCARBON SECTOR ARE ALMOST NON-EXISTENT, IMPORT SUBSTITUTION HAS NOT BEEN PARTICULARLY SUCCESSFUL, AND AGRICULTURAL IMPORTS CONTINUE TO MOUNT. FOREIGN LENDERS ARE BECOMING INCREASINGLY CAUTIOUS AND ONLY LNG OFFERS POSSIBILITY OF CONTINUING FOREIGN BORROWING
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AT ANYTHING LIKE PACE OF RECENT YEARS. EMD SUMMARY.

2. ALGERIA'S EXTERNAL DEBT HAS GROWN RAPIDLY IN RECENT YEARS. AUGUST 1976 IMF REPORT ON ALGERIA SHOWS TOTAL DISBURSED EXTERNAL DEBT OF \$1,237 MILLION (SDR 1,135 MILLION) AT END OF 1971 AND \$4,521 MILLION (SDR 3,864 MILLION) AT END OF 1975. WE HAVE BEEN TOLD THAT NET CAPITAL

INFLOW WAS \$1,650 MILLION IN 1976, WHICH WOULD PUT TOTAL DISBURSED DEBT AT \$6,171 MILLION AT END OF THAT YEAR. (THESE FIGURES SHOULD BE TAKEN AS MINIMUMS AS THERE IS SOME INCLINATION IN DIPLOMATIC COMMUNITY HERE TO BELIEVE THAT GOA REPORTS LESS THAN TRUE AMOUNTS TO IMF.)

3. EXTERNAL RESERVES OF GOLD (WHICH HAS REMAINED FAIRLY STEADY ELEMENT AT ABOUT \$210 TO \$230 MILLION), SDRS, IMF RESERVE POSITION, AND FOREIGN EXCHANGE (BY FAR THE LARGEST ELEMENT) WERE \$507 MILLION AT END OF 1971 AND \$1,353 MILLION AT END OF 1975. WE DO NOT HAVE OFFICIAL FIGURE FOR 1976 BUT IF GOA CLAIMS OF OVERALL BALANCE OF PAYMENTS SURPLUS OF \$750 MILLION IN 1976 ARE TRUE, RESERVES STOOD AT OVER \$2 BILLION AT END OF THAT YEAR. THIS WOULD BE CONFORTABLE LEVEL OF RESERVES--ABOUT FIVE MONTHS' IMPORTS--BUT IS NOT SUFFICIENT TO PERMIT DRAMATIC REDUCTION IN DEBT. POSSIBLY \$600 MILLION COULD BE SPARED FOR DEBT REDUCTION, LEAVING \$1.4 BILLION (90 DAYS' IMPORTS) AS "NORMAL" HOLDINGS. USING SAME REASONING, SOME \$210 MILLION COULD HAVE BEEN SPARED IN 1971.

4. SUBTRACTING THESE AMOUNTS FROM ACTUAL DEBTS IN 1972 AND 1976 GIVES \$1,027 MILLION AND \$5,571 MILLION, RESPECTIVELY, FOR WHAT MIGHT BE CALLED ALGERIA'S "NET DEBT" AT END OF THOSE YEARS. DEBT, THUS DEFINED, THEREFORE INCREASED 440 PERCENT IN THE FIVE YEARS.

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5. STRIKING AS THIS GROWTH IN DEBT BURDEN HAS BEEN, ALGERIA'S EARNINGS HAVE DEPT PACE WITH IT. VISIBLE EXPORTS, \$900 MILLION IN 1971, HAD GROWN BY 455 PERCENT, TO \$5 BILLION, BY 1976. SIMPLE COMPARISON OF 1971 WITH 1976 WOULD THUS SEEM TO GIVE LITTLE CAUSE FOR ALARM, WITH DEBT AND ABILITY TO CARRY DEBT ADVANCING AT ABOUT SAME PACE.

6 THESE FIGURES HIDE IMPORTANT FACT, HOWEVER, AND ONE THAT IS CLEARLY SEEN BY AN INCREASINGLY SKEPTICAL INTERNATIONAL FINANCIAL COMMUNITY. GROWTH IN ALGERIA'S DEBT IS RESULT OF DEEP COMMITMENT TO INDUSTRIALIZATION AND RESULTANT INSATIABLE AND SEMI-PERMANENT APPETITE FOR CAPITAL. GROWTH IN EXPORTS, ON OTHER HAND, IS RESULT OF ONE-TIME WINDFALL--1973/74 OIL PRICE INCREASES. WITH ANOTHER EXPORT WINDFALL, GROWTH IN DEBT IS BOUND TO OUTPACE COUNTRY'S ABILITY TO PAY UNTIL SOURCES OF FINANCE BEGIN TO DRY UP, AS INDEED IS

ALREADY CASE FOR SEVERAL IMPORTANT LENDERS. NET DEBT (AS DEFINED ABOVE), WITHL ADMITTEDLY 114 PERCENT OF EXPORTS IN 1971, WAS DOWN TO ONLY 55 PERCENT IN 1974, BUT HAS GROWN TO 111 PERCENT IN THREE SHORT YEARS FOLLOWING OIL PRICE BONANZA.

7. EXCEPT FOR HYDROCARBONS, ALGERIAN ECONOMIC SCENE PRESENTS NO SIGNIFICANT PROSPECTS FOR INCREASED EXPORT EARNINGS. IMPORT SUBSTITUTION AHS BEEN HAMPERED BY OPERATING PROBLEMS IN NEW INDUSTRIES, ALTHOUGH IT HAS DOUBTLESS CUT IMPORT BILL TO SOME EXTENT. DESPITE GOOD SHOWING IN 1976, AGRICULTURE CONTINUES TO BE NEGLECTED AND, WITH POPULATION GROWING AT OVER 3.2 PERCENT, FOOD IMPORT BILL REACHES \$1 BILLION IN SOME YEARS AND IS GROWING. OIL PRODUCTION AND PRICES WILL DOUBTLESS SHOW STEADY GROWTH IN MEDIUM TERM, BUT CANNOT BE COUNTED ON TO PRODUCE DRAMATIC JUMP IN EXPORT
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EARNINGS. ONLY LNG OFFER HOPE OF SUCH AN INCREASE AND, WITH IT, POSSIBILITY OF CONTINUING TO BORROW ABROAD AT ANTHING LIKE RATE (\$1.5 TO \$1.6 BILLION) TO WHICH ECONOMY HAS BECOME ACCUSTOMED. EVEN IF LNG PROJECTS COME ON STREAM REASONABLY QUICKLY (A MUCH-DOUBTED PROPOSITION), OUR IMPRESSION FROM TALKING TO VISITING BANKERS AND OTHER EMBASSIES IS THAT RECENT LEVEL OF BORROWING WILL BE HARD TO MAINTAIN. IF LNG IS SERIOUSLY DELAYED, ALGERIAN SEEMS CERTAIN TO BE FORCED TO MAKE SOME RADICAL AND PAINFUL ECONOMIC READJUSTMENTS.

8. WE ARE PREPARING SEPARATE MESSAGE ON PRESENT STATUS OF ALGERIA'S LNG PROJECTS.

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